

Message Text

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17

ACTION EB-07

INFO OCT-01 NEA-10 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 DODE-00 FPC-01 H-02 INR-07 INT-05 L-03

NSAE-00 NSC-05 OMB-01 PM-04 USIA-06 SAM-01 OES-03

SP-02 SS-15 STR-04 TRSE-00 FEA-01 PA-01 PRS-01 AGR-05

/097 W

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R 090518Z SEP 75

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 3630

USDOC WASHDC

INFO AMEMBASSY ABU DHABI

AMEMBASSY BEIRUT

AMCONSUL DHAHRAN

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY MANAMA

AMEMBASSY MUSCAT

AMEMBASSY TEHRAN

USINT BAGHDAD

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COMMERCE FOR MEPD

E.O. 11652: N/A

TAGS: ENRG, KU

SUBJECT: STATUS OF KUWAIT PETROCHEMICAL PROJECTS; EFFECT
OF GAS SHORTAGE ON PIC PLANNING.

REF: (A) KUWAIT 2972 (B) KUWAIT 2356 (C) KUWAIT 1148 (NOTAL)
(D) KUWAIT 0551 (NOTAL)

SUMMARY: IN CONVERSATIONS WITH HIGH OFFICIALS IN PETROCHEMICAL
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INDUSTRIES COMPANY, EMBOFF HAS REVIEWED STATUS OF MAJOR PETRO-

CHEMICAL PROJECTS; THE AROMATICS PROJECT APPEARS TO BE PROCEEDING WITH NO MAJOR PROBLEMS, BUT PROBLEMS REPORTED WITH THE OLEFINS PROJECT AND THE SUSPENSION OF THE LIQUID AMMONIA PROJECT APPEAR TO BE RELATED LARGELY TO THE DECLINE IN GAS PRODUCTION ASSOCIATED WITH KUWAIT'S DECISION TO CUT BACK ON OIL PRODUCTION AS WELL AS TO CERTAIN PRICE, MARKET AND TECHNICAL FACTORS. END SUMMARY

1. EMBOFF DISCUSSED STATUS OF THREE MAJOR PROJECTS BEING CONSIDERED BY PETROCHEMICAL INDUSTRIES COMPANY (PIC) WITH TWO SENIOR OFFICIALS, ONE ON THE PLANNING AND DEVELOPMENT STAFF, THE OTHER ON THE MANAGING STAFF OF KUWAIT CHEMICAL FERTILIZERS COMPANY, A PIC SUBSIDIARY. PROJECTS INVOLVED ARE \$250 MILLION AROMATICS PLANT FOR PRODUCTION OF BENZEMF AND XYLENE; \$500 MILLION OLEFINS PROJECT FOR PRODUCTION OF ETHYLENE, POLYETHYLENE, AND STYRENE MONOMERS; AND \$250 MILLION PROJECT FOR THE PRODUCTION OF LIQUID AMMONIA.

2. RE AROMATICS PLANT, EMBOFF LEARNED THAT MARKET AND TECHNICAL STUDIES CONTRACTED WITH CHEM SYSTEMS AND PROCON (REFTEL B) SHOULD BE COMPLETED AROUND END OF YEAR. NEGOTIATIONS WITH W.RPHMRACE CO. ON JOINT VENTURE WITH PIC B HOULD BE COMPLETED ABOUT SAME TIME OR SOON THEREAFTER. ONCE THESE ARE ROMplete, CONTRACTS FOR CONSTRUCTION OF PLANT WILL BE DRAWN UP, AND SELECTION OF CONTRACTORS WILL BEGIN. OFFICIAL INV LANNING SECTION OF PIC ESTIMATED THAT THIS WOULD TAKE PLACE TOWARDS END OF NEXT YEAR. OVERALL, THE PROJECT SHOULD TAKE FROM TWO TO THREE YEARS TO COMPLETE.

3. RE LIQUID AMMONIA PLANT, THERE HAS BEEN SOME CONTRADICTORY INFORMATION. PLANNING OFFICIAL STATED THAT PROJECT WAS STILL BEING CONSIDERED, BUT OFFICIAL ON MANAGING STAFF OF FERTILIZER SUBSIDIARY STATED THAT PROJECT WAS DEFINITELY "ON THE BACK BURNER" FOR NOW, REASON BEING THE CURRENT DECLINE IN AMMONIA PRICES AND THE PROSPECTIVE GAS SHORTAGE (SEE REFTTEL A).

4. RE OLEFINS PROJECT, IT HAS BEEN ANNOUNCED THAT FEASIBILITY STUDY HAS BEEN COMPLETED ON PROJECT, WHICH IS TO MAKE USE OF ETHANE PRODUCED BY LPG PROJECT CUGTENTLY IN DEVELOPMENT. IT HAD BEEN SUGGESTED WITHIN PIC THAT, BECAUSE OF INCREASED COMPETITIVE-LIMITED OFFICIAL USE

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NESS IN THE WORLD MARKET FOR POLYETHYLENEAND RELATED PRODUCTS, AND CONSEQUENT NEED FOR EXPERTISE ACQUIRED OVER A LONG PERIOD OF TIME IN ORDER TO COMPETE EFFECTIVELY, PIC CONCENTRATE FOR NOW ON PRODUCTION OF RELATIVELY SIMPLE ETHYLENE, AND HOLD OFF ON PRODUCTION OF DOWNSTREAM CHEMICAL PRODUCTS SUCH AS POLYETHYLENES AND STYRENES UNTIL IT ACQUIRES NEEDED EXPERIENCE. PLANNING OFFICIAL EMPHASIZED THAT PIC WOULD UNDERTAKE BOTH

ASPECTS OF OLEFINS PROJECT, BUT ACKNOWLEDGED THAT THERE WERE MANY PROBLEMS INVOLVED, BOTH IN PRODUCTION OF ETHYLENE (IT HARD TO COMPRESS AND TRECPOGA, THUS IS HARD TO EXPORT), AND IN PRODUCTION OF DOWNSTREAM CHEMICALS, SO MANY, IN FACT, THAT, ACCORDING TO THIS OFFICIAL, PIC MAY NOT BE PRODUCING OLEFIN PRODUCTS UNTIL EARLY 1980'S.

5. OFFICIAL DISCUSSED ONE PROBLEM IN PARTICULAR. BECAUSE OF LIMITED AMOUNT OF NATURAL GAS AVAILABLE TO KUWAIT, IT POSSIBLE THAT CURRENT END USERS WILL HAVE TO SWITCH TO MORE EXPENSIVE SUBSTITUTES, PARTICULARLY MINISTRY OF ELECTRICITY AND WATER, WHICH WOULD HAVE TO SHIFT TO THE USE OF OIL IN ITS POWER PLANTS. IT NOT KNOWN AT PRESENT HOW THE INCREASED COST OF SUCH ACTIONS WILL BE SHARED OUT AMONG THE VARIOUS END-USERS. CONSEQUENTLY IT NOT KNOWN HOW MUCH PIC WILL HAVE TO PAY, IN ORDER TO RECEIVE ITS 5 PERCENT SHARE OF TOTAL NATURAL GAS PRODUCTION, STILL LESS HOW MUCH IT WILL PAY FOR NATURAL GAS IT WILL NEED IN RELATION TO OLEFINS PROJECT. PLANNING OFFICIAL DID EXPRESS CONFIDENCE THAT PIC WOULD BE ABLE TO RECEIVE ITS NATURAL GAS REQUIREMENTS, EMPHASIZING THAT THE PROBLEM WAS ECONOMIC, NOT TECHNICAL, IN NATURE.

6. IN LIGHT OF TECHNICAL AND ECONOMIC PROBLEMS SUCH AS THESE, ACCORDING TO PLANNING OFFICIAL, CURRENT THINKING ON THE OLEFINS PROJECT RUNS LIKE THIS: PIC WILL OPERATE A PLANT FOR THE MANUFACTURE OF ETHYLENE WITH NO FOREIGN PARTICIPATION, IN PART BECAUSE OF THE RELATIVE SIMPLICITY OF THE PROCESSES INVOLVED, IN PART BECAUSE IT WANTS TO KEEP THE NATURAL GAS PROBLEM "IN HOUSE", THUS AVOIDING PROBLEMS OF PRIOR PRICE AGREEMENT WITH FOREIGN PARTNER. AT SAME TIME, PIC WILL BE LOOKING FOR FOREIGN PARTNER TO HELP OPERATE DOWNSTREAM SEGMENT OF THE OLEFINS PROJECT, AGAIN IN PART TO OBTAIN MORE EXPERTISE IN THE FIELD, IN PART BECAUSE IT HOPES THAT GAS SHORTAGE-UNCERTAIN PRICE LIMITED OFFICIAL USE

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PROBLEMS WILL HAVE ABATED BY THEN.

7. COMMENT: EMBASSY HAS PREVIOUSLY REPORTED THAT KUWAIT FACES ITS OWN ENERGY CRISIS DUE TO SHORTAGE OF NATURAL GAS. (IN THIS CONNECTION, IT MIGHT ALSO BE MENTIONED THAT FERTILIZER OFFICIAL NOTED THAT THE FERTILIZER PLANT HAD HAD TO CUT BACK ITS OPERATIONS FOR 4-6 HOURS A DAY DURING THE SUMMER, BECAUSE THE SHUAIBA AREA AUTHORITY HAD BEEN UNABLE TO PRODUCE ENOUGH ELECTRICITY TO COPE WITH THE PEAK SUMMER DEMAND WITH THE GAS AVAILABLE.) WHILE PROBLEMS REPORTED WITH OLEFINS PROJECT (AS WELL AS WITH THE LIQUID AMMONIA PROJECT) ARE IN PART TECHNICAL IN NATURE, THEY APPARENTLY ARE ALSO RELATED TO KUWAIT'S GAS PROBLEMS. AS SUCH, THESE PROBLEMS REPRESENT THE FIRST SUBSTANTIAL INDICATION THAT KUWAIT'S GAS SHORTAGE IS AFFECTING RELATIVELY HIGH PRIORITY INDUSTRIAL PROGRAMS.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM INDUSTRY, PROGRESS REPORTS, PROGRAMS (PROJECTS)
Control Number: n/a
Copy: SINGLE
Draft Date: 09 SEP 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975KUWAIT03687
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750311-0022
From: KUWAIT
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750971/aaaackrf.tel
Line Count: 170
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 KUWAIT 2972, 75 KUWAIT 2356, 75 KUWAIT 1148
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 04 AUG 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <04 AUG 2003 by CunninFX>; APPROVED <24 NOV 2003 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: STATUS OF KUWAIT PETROCHEMICAL PROJECTS; EFFECT OF GAS SHORTAGE ON PIC PLANNING.
TAGS: ENRG, KU
To: STATE COM
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006